

DO NOW!



- What is GDP?

WHAT'S IN GDP?

An activity for “The ABCs of GDP” (*Extra Credit* Spring 2009)

What is gross domestic product (GDP)?

- Currency value (such as U.S. dollar) of all final goods and services produced within a country in a given period
- Total income of a nation
- Measure of nation's economic well-being
- Measure of a nation's economic growth from one period to the next
- Most commonly calculated via $C+I+G+(E - I)$

What's included in GDP?

- Amount of good and services purchased by households
 - ▣ Only counts goods produced in the country
 - ▣ Examples
 - Goods: groceries, clothes, iPods
 - Services: haircuts, oil changes

What's included in GDP?



- Amount spent by business on productive resources and purchases of capital by consumers
- New machines, new factories, research
- New homes also counts

What's included in GDP?

- Amount spent by government to provide goods and services
- Government expenditures by local, state, and federal government
 - ▣ Roads and schools

What's included in GDP?

- Net exports

- Value of a country's exports to other nations, less its imports from other nations

Exports = products America makes and sold over seas

Imports = products America buys from other countries

What's included in GDP?

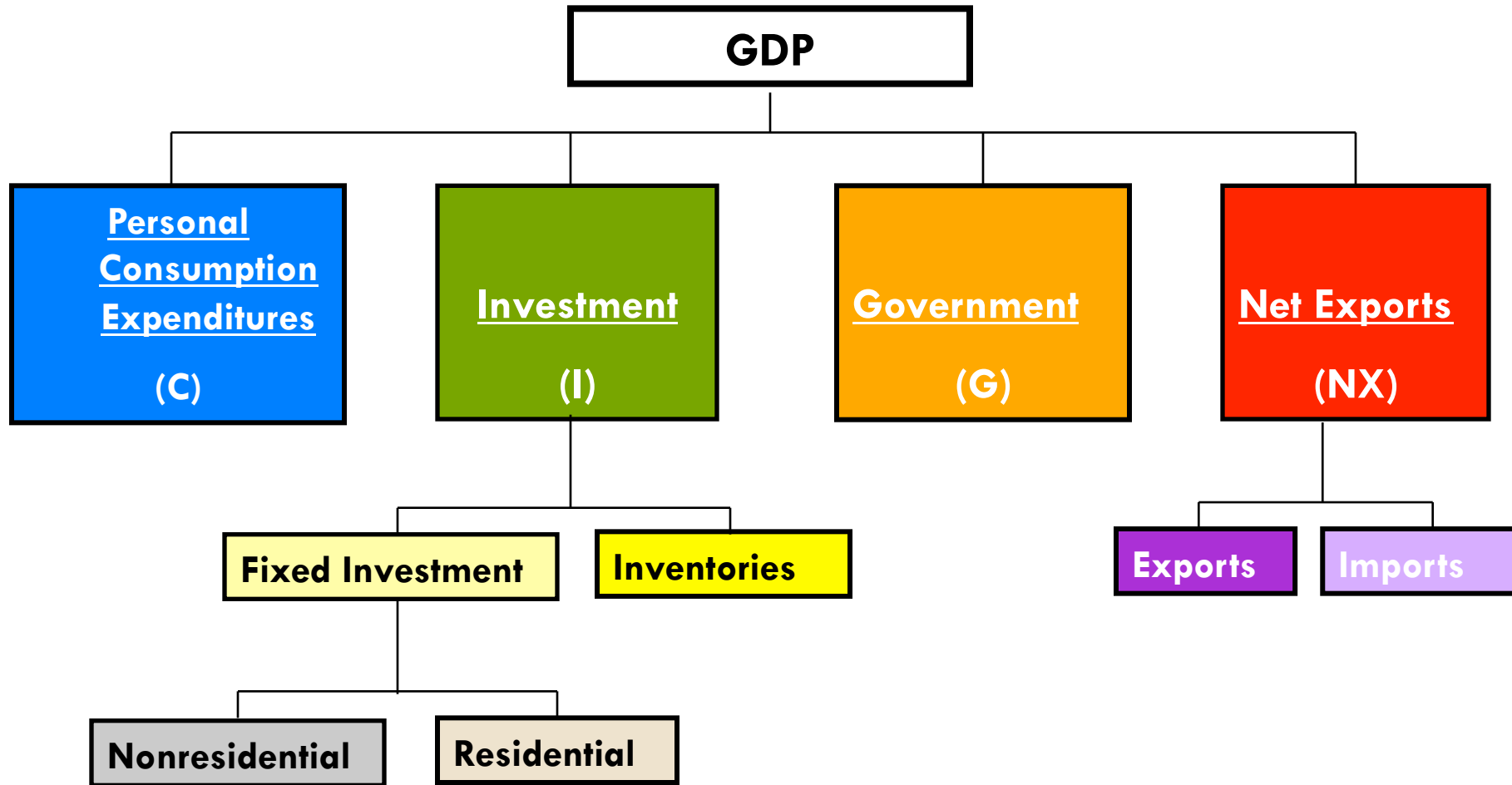
- $\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government spending} + \text{Net exports}$

Spending	Dollars in Trillions
Consumer Spending	10.3
Investment Spending	1.8
Government Spending	3.0
Exports	1.8
Imports	-2.3

What's not included in GDP?

- ❑ Intermediate goods
- ❑ Used goods
- ❑ Underground production (black market)
- ❑ Financial transactions
- ❑ Household production
- ❑ Transfer payments

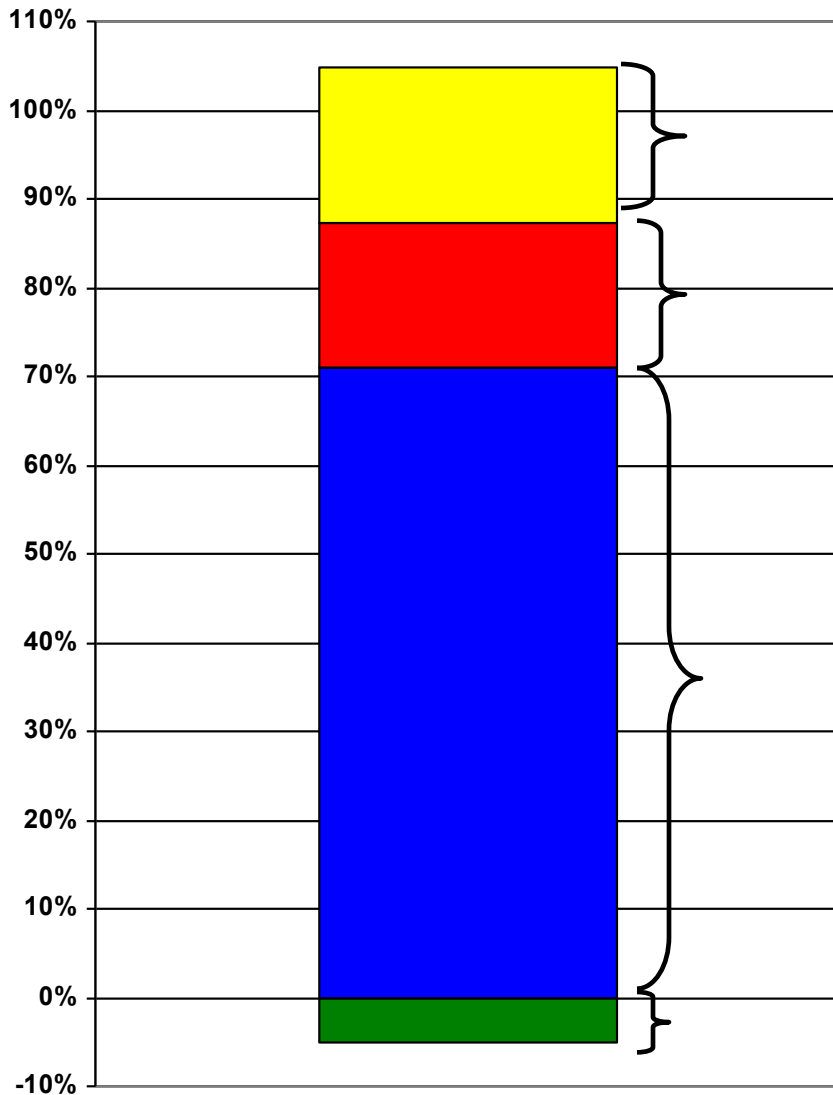
What are the components of GDP?



$$\text{GDP} = C + I + G + NX$$

How much of GDP is each component?

Average Percent of GDP since 2003



<u>Component</u>	<u>% of GDP</u>
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Government	19%
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Investment	16%
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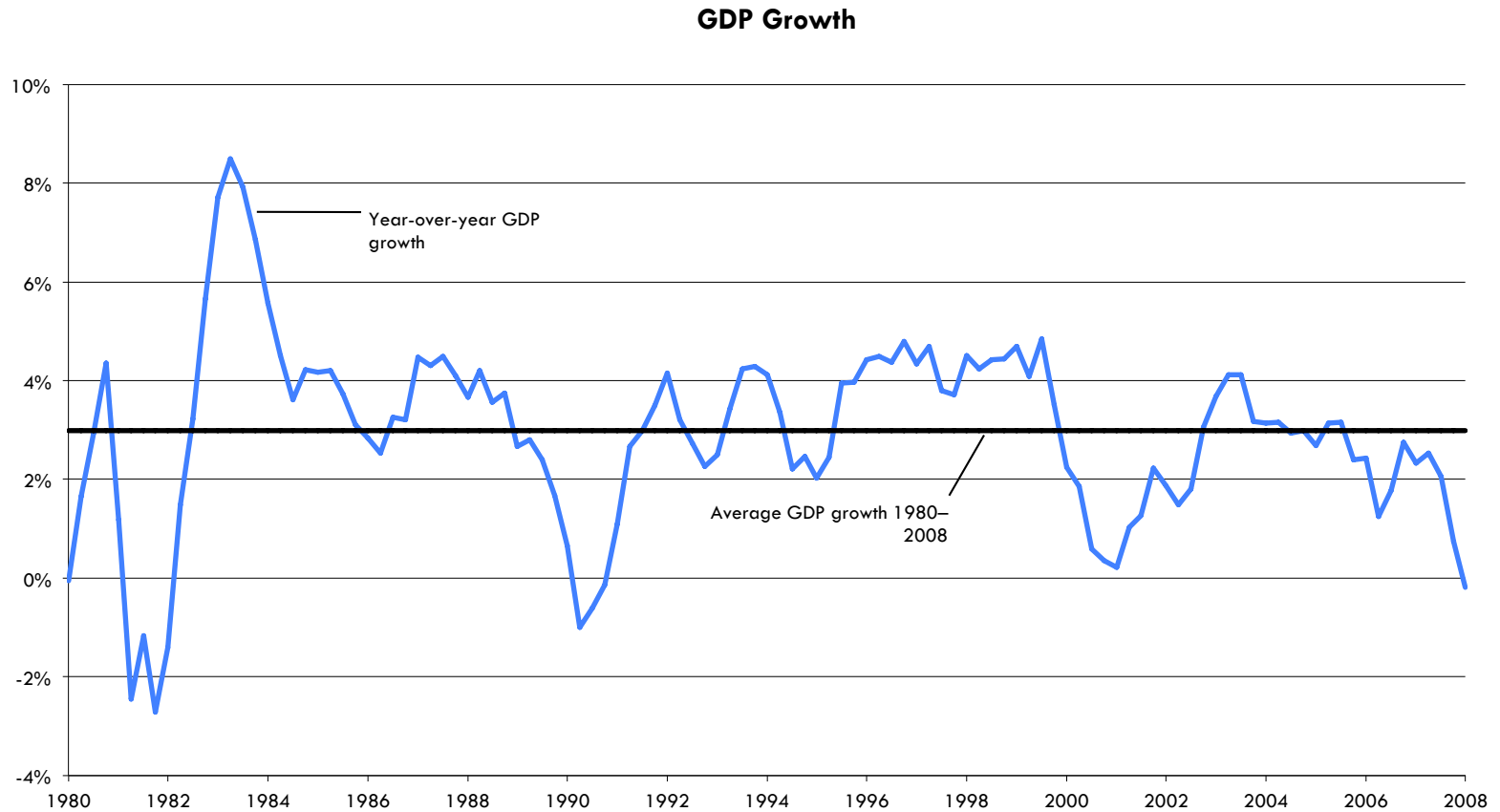
Consumption (PCE)	70%
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Net Exports	-5%
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GDP	100%
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Source: Bureau of Economic Analysis

What is a good rate of growth?



Real and nominal GDP

- When GDP is computed in the current year's prices, rising prices (inflation) can make it difficult to determine if a change in GDP from one year to the next is due to the country's production of more goods and services or to increases in the price level.
- ▣ Nominal GDP: GDP that is not adjusted for inflation. The value of goods and services in current prices.
- ▣ Real GDP: The dollar price of GDP in a base year's price, used to compare changes in GDP from one year to the next. An increase in real GDP is an increase in economic growth.

What GDP does not tell us

- ❑ Does not measure income distribution
- ❑ Does not measure non-monetary output or transactions (e.g., barter, household activities)
- ❑ Does not take into account desirable externalities, such as leisure or environment
- ❑ Does not measure social well-being
- ❑ Correlates to standard of living but is not a measure of standard of living